

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Carson City	County Montcalm
Fiscal Year End 6/30/06	Opinion Date 7/21/06	Date Audit Report Submitted to State 8/39/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

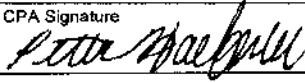
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ **NO** ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☒ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Single audit and audit committee letter	
Certified Public Accountant (Firm Name) Vredeveld Haefner LLC	Telephone Number 6164609388		
Street Address 4001 Granada Ct.	City Grand Rapids	State MI	Zip 49534
Authorizing CPA Signature 	Printed Name Peter Haefner, CPA	License Number 1684366	

CITY OF CARSON CITY, MICHIGAN

FINANCIAL STATEMENTS

and

SINGLE AUDIT REPORTS

FOR THE YEAR ENDED JUNE 30, 2006

Montcalm County

CITY OF CARSON CITY

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CITY OF CARSON CITY

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INDEPENDENT AUDITORS' REPORT

July 21, 2006

Honorable Mayor and Members of the City Council
City of Carson City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carson City, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Carson City, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the City of Carson City, Michigan as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 21, 2006, on our consideration of the City of Carson City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-8 and the schedules of funding progress and employer contributions on page 36 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Carson City's basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non Profit Organizations*, and is also not a required part of the basic financial statements of the City of Carson City. The combining and individual nonmajor fund financial statements and schedules and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Oradexeld Haefner LLC

Management's Discussion and Analysis

As management of the City of Carson City, we offer readers of the City of Carson City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The City's commitment to public safety was supported by 24% of governmental expenditures.
- The City spent over 1.3 million on water system improvements, including a new water tower, funded primarily through proceeds from a federal and state funded Drinking Water Revolving Fund loan.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Carson City's financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City of Carson City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government administration, public safety, public works including major and local street maintenance and culture and recreation activities. The business-type activities of the City include sewer and water services.

The government-wide financial statements can be found on pages 9-11 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Carson City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and library funds.

Data is combined into a single aggregated presentation for the other four governmental funds. Individual fund data for each of the non-major governmental funds is provided in the form of *combining statements and schedules*.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 12-17 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Sewer and Water operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its fleet of vehicles. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Sewer and Water operations, both of which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 18-20 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resource of those funds are *not* available to the support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements can be found on pages 21-22 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-35 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This includes this management discussion and analysis as well as schedules of funding progress and employer contributions related to the City's pension plan which can be found on page 36 of this report.

Combining and individual fund statements and schedules can be found on pages 37-44 this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Carson City, assets exceeded liabilities by \$7,630,718 at the close of the most recent fiscal year.

A significant portion of the City's net assets reflects unrestricted net assets which are available for future operation while a significant portion of net assets is invested in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Summary of Net Assets						
	Governmental Activities		Business-type Activities		Totals	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$1,466,933	\$1,363,777	\$1,883,323	\$1,516,512	\$3,350,256	\$2,880,289
Capital assets	1,558,911	1,566,118	5,023,234	3,711,882	6,582,145	5,278,000
Total assets	3,025,844	2,929,895	6,906,557	5,228,394	9,932,401	8,158,289
Long-term liabilities outstanding	324,532	329,455	1,525,669	167,375	1,850,201	496,830
Other liabilities	181,270	223,061	270,212	210,769	451,482	433,830
Total liabilities	505,802	552,516	1,795,881	378,144	2,301,683	930,660
Net assets						
Invested in capital assets, net of related debt	1,294,911	1,283,079	3,523,889	3,544,507	4,818,800	4,827,586
Restricted	811,456	703,217	-	-	811,456	703,217
Unrestricted	413,675	391,083	1,586,787	1,305,743	2,000,462	1,696,826
Total net assets	\$2,520,042	\$2,377,379	\$5,110,676	\$4,850,250	\$7,630,718	\$7,227,629

Net assets of the City increased by \$403,089, with both the governmental and business-type activities showing additions to prior balances. The business-type activities increase in net assets of \$260,426 was primarily the result of increased revenues and cost containment activities. from operations. The governmental activities increase in net assets of \$142,663 is primarily due to a combination of stable fuel tax revenue and no major projects in the street funds.

Summary of Activities

	Governmental Activities		Business-type Activities		Totals	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenue						
Program revenue						
Charges for Services	\$62,455	\$163,383	\$671,127	\$638,326	\$733,582	\$801,709
Operating grants and contributions	222,123	285,058	-	-	222,123	285,508
Capital grants and contributions	49,363	62,603	5,991	-	55,354	62,603
	<u>333,941</u>	<u>511,044</u>	<u>677,118</u>	<u>638,326</u>	<u>1,011,059</u>	<u>1,149,370</u>
General revenue						
Property taxes	419,861	408,811	-	-	419,861	408,811
Other governmental sources	149,625	142,064	-	-	149,625	142,064
Other	48,112	61,185	13,142	(14,237)	61,254	46,948
Total revenue	<u>951,539</u>	<u>1,123,104</u>	<u>690,260</u>	<u>624,089</u>	<u>1,641,799</u>	<u>1,747,193</u>
Expenses						
Legislative	68,762	75,922	-	-	68,762	75,922
General government	159,987	120,294	-	-	159,987	120,294
Public Safety	187,411	179,156	-	-	187,411	179,156
Public works	170,811	164,977	-	-	170,811	164,977
Culture and recreation	208,714	292,754	-	-	208,714	292,754
Interest	13,191	15,370	-	-	13,191	15,370
Sewer	-	-	194,859	189,708	194,859	189,708
Water	-	-	234,975	319,833	234,975	319,833
Total expenses	<u>808,876</u>	<u>848,473</u>	<u>429,834</u>	<u>509,541</u>	<u>1,238,710</u>	<u>1,358,014</u>
Increase in net assets	142,663	274,631	260,426	114,548	403,089	389,179
Net assets-beginning of year	<u>2,377,379</u>	<u>2,102,748</u>	<u>4,850,250</u>	<u>4,735,702</u>	<u>7,227,629</u>	<u>6,838,450</u>
Net assets end of year	<u>\$2,520,042</u>	<u>\$2,377,379</u>	<u>\$5,110,676</u>	<u>\$4,850,250</u>	<u>\$7,630,718</u>	<u>\$7,227,629</u>

Governmental activities

During the year the City continued its emphasis in public safety by investing \$187,411 or 24% of governmental activities expenses. Culture and recreation, which includes library operations was \$208,714 or 26% of governmental activities expenses while general government, public works and streets and interest on long-term debt made up the remaining 50% of governmental activities expenses.

Business-type activities. Business-type activities increased the City's net assets by \$260,426, accounting for 65% of the total growth in the government's net assets for the current year. By comparison, business-type activities reported an increase in net assets the previous fiscal year of \$114,548. Key elements of this increase are as follows:

- Both salary and professional service costs decreased due to the water construction project being contracted out and the costs capitalized.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,000,573, an increase of \$138,179 in comparison with the prior year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$140,995 which is equal to total fund balance. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 24% of total general fund expenditures.

The fund balance of the City's general fund increased by \$18,093 during the current fiscal year.

The library fund has a total fund balance of \$300,209, which increased by \$11,322 during the year primarily due to higher than expected property taxes and penal fines. The balance of this fund is restricted for use as defined by the City Council.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the sewer and water funds at the end of the year amounted to \$1,058,481 and \$528,306, respectively. The sewer fund had an increase in net assets for the year of \$145,874 and the water fund had an increase of \$114,552. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences between the original and final amended budgets were due to a grant received from the Department of Homeland Security which increased both intergovernmental revenue and fire department expenditure budgets. In addition, the legislative expenditure budget declined due to a decrease in the amount budgeted for contingencies.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of June 30, 2006, amounted to \$6,582,145 (net of accumulated depreciation).

Significant capital purchases during the year consisted primarily of water system improvements.

The City's Capital Assets (net of depreciation) are summarized as follows:

	Capital Assets		
	Governmental Activities	Business-type Activities	Total
Land	\$ 158,996	\$ 14,475	\$ 173,471
Construction in progress	-	1,555,524	1,555,524
Buildings, Equipment and Infrastructure	1,399,915	3,453,235	5,853,150
Total	\$1,558,911	\$5,023,234	\$6,582,145

Additional information on the City of Carson City capital assets can be found in Note 5 on pages 31-32 of this report.

Debt. At the end of the current fiscal year, the City had total debt outstanding of \$1,823,877 summarized as follows:

	Debt		
	Governmental Activities	Business-type Activities	Total
Accrued employee benefits	\$ 60,532	\$ 26,324	\$ 86,856
Notes payable	264,000	-	264,000
DWRF Loan payable	-	1,499,345	1,499,345
Total	\$324,532	\$1,525,669	\$1,850,201

The City's total debt increased by \$1,327,047 during the year primarily due to additional amounts borrowed under the Drinking Water Revolving Fund loan agreement.

Additional information on the City's long-term debt can be found in Note 8 on pages 34-35 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2006-07 fiscal year:

- Increased employee wages cost of 2%.
- Increased health insurance cost.
- Stable property tax revenue.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Comptroller, 123 East Main St., Carson City, Michigan, 48811.

CITY OF CARSON CITY
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 869,005	\$ 569,911	\$ 1,438,916
Investments	531,996	989,314	1,521,310
Accounts receivable	-	67,277	67,277
Special assessments receivable	1,197	-	1,197
Due from other governments	64,735	256,821	321,556
Capital assets, net			
Land	158,996	14,475	173,471
Construction in progress	-	1,555,524	1,555,524
Buildings, equipment and infrastructure	1,399,915	3,453,235	4,853,150
Total assets	3,025,844	6,906,557	9,932,401
Liabilities			
Accounts payable and accrued expenses	9,588	270,212	279,800
Unearned revenue	171,682	-	171,682
Noncurrent liabilities			
Due within one year	21,000	-	21,000
Due in more than one year	303,532	1,525,669	1,829,201
Total liabilities	505,802	1,795,881	2,301,683
Net Assets			
Invested in capital assets, net of related debt	1,294,911	3,523,889	4,818,800
Restricted for			
Library	300,209	-	300,209
Major streets	221,248	-	221,248
Local streets	291,181	-	291,181
Debt service	(1,182)	-	(1,182)
Unrestricted	413,675	1,586,787	2,000,462
Total net assets	\$ 2,520,042	\$ 5,110,676	\$ 7,630,718

The accompanying notes are an integral part of these financial statements.

CITY OF CARSON CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

<u>Functions/Programs</u>	<u>Program Revenues</u>				
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue</u>
Primary government					
Governmental activities					
Legislative	\$ 68,762	\$ -	\$ -	\$ -	\$ (68,762)
General government	159,987	20,895	-	4,068	(135,024)
Public safety	187,411	21,733	5,172	45,295	(115,211)
Public works	170,811	11,944	99,097	-	(59,770)
Culture and recreation	208,714	7,883	117,854	-	(82,977)
Interest on long-term debt	13,191	-	-	-	(13,191)
Total governmental activities	808,876	62,455	222,123	49,363	(474,935)
Business-type activities					
Sewer	194,859	325,545	-	-	130,686
Water	234,975	345,582	-	5,991	116,598
Total business-type activities	429,834	671,127	-	5,991	247,284
Total primary government	\$ 1,238,710	\$ 733,582	\$ 222,123	\$ 55,354	\$ (227,651)

(Continued)

The accompanying notes are an integral part of these financial statements.

CITY OF CARSON CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

	Primary Government		
	Governmental	Business-type	Total
	<u>Activities</u>	<u>Activities</u>	
Changes in net assets			
Net (expense) revenue	\$ (474,935)	\$ 247,284	\$ (227,651)
General revenues			
Property taxes			
General operating	325,557	-	325,557
Library	94,304	-	94,304
State shared revenues	149,625	-	149,625
Interest earnings	13,112	48,142	61,254
Transfers	35,000	(35,000)	-
Total general revenues and transfers	617,598	13,142	630,740
Change in net assets	142,663	260,426	403,089
Net assets, beginning of year	2,377,379	4,850,250	7,227,629
Net assets, end of year	\$ 2,520,042	\$ 5,110,676	\$ 7,630,718

(Concluded)

The accompanying notes are an integral part of these financial statements.

CITY OF CARSON CITY
GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2006

	<u>General</u>	<u>Library</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 256,779	\$ 194,992	\$ 315,745	\$ 767,516
Investments	15,891	101,621	229,748	347,260
Assessment receivable	-	-	1,197	1,197
Due from other funds	2,285	-	-	2,285
Due from other governments	44,490	3,981	16,264	64,735
Total Assets	\$ 319,445	\$ 300,594	\$ 562,954	\$ 1,182,993
Liabilities and fund balance				
Liabilities				
Accounts payable and accrued liabilities	\$ 6,768	\$ 385	\$ 103	\$ 7,256
Due to other funds	-	-	2,285	2,285
Deferred revenue	171,682	-	1,197	172,879
Total Liabilities	178,450	385	3,585	182,420
Fund balances				
Unreserved				
Undesignated	140,995	300,209	-	441,204
Undesignated reported in nonmajor				
Special revenue funds	-	-	560,551	560,551
Debt service fund	-	-	(1,182)	(1,182)
Total fund balances (deficit)	140,995	300,209	559,369	1,000,573
Total liabilities and fund balance	\$ 319,445	\$ 300,594	\$ 562,954	\$ 1,182,993

The accompanying notes are an integral part of these financial statements.

CITY OF CARSON CITY

RECONCILIATION OF FUND BALANCE ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS

JUNE 30, 2006

Fund balances - total governmental funds	\$ 1,000,573
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Amounts reported for *governmental activities* in the statement of net assets are different because

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets (net)	1,496,107
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Certain assets, such as special assessments receivable, are not due and receivable in the current period and therefore are offset with deferred revenue in the funds.

Add - special assessments deferred revenue	1,197
--	-------

An internal service fund is used by management to charge the costs of centralized costs, to individual funds. The assets and liabilities of the internal service fund is included in the governmental activities.

Add - net assets of governmental activities accounted for in the internal service fund	348,755
--	---------

Certain liabilities, such as notes payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - compensated absences payable	(60,532)
Deduct - notes payable	(264,000)
Deduct - accrued interest on notes payable	(2,058)

Net assets of governmental activities	<u>\$ 2,520,042</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF CARSON CITY

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Library</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues				
Taxes and special assessments	\$ 325,557	\$ 94,304	\$ 4,068	\$ 423,929
Intergovernmental revenues	195,170	93,521	99,863	388,554
Fees and service charges	44,760	14,108	-	58,868
Contributions	-	3,329	-	3,329
Interest	6,220	7,883	11,280	25,383
Miscellaneous	10,140	-	-	10,140
Total revenues	581,847	213,145	115,211	910,203
Expenditures				
Current				
Legislative	68,762	-	-	68,762
General government	150,897	-	-	150,897
Public safety	221,711	-	-	221,711
Public works	111,462	-	15,773	127,235
Recreation and culture	35,922	169,444	-	205,366
Capital outlay	-	-	674	674
Debt service				
Principal	-	19,039	-	19,039
Interest	-	13,340	-	13,340
Total expenditures	588,754	201,823	16,447	807,024
Revenues over (under) expenditures	(6,907)	11,322	98,764	103,179
Other financing sources (uses)				
Transfers in	25,000	-	17,130	42,130
Transfers out	-	-	(7,130)	(7,130)
Total other financing sources (uses)	25,000	-	10,000	35,000
Net changes in fund balances	18,093	11,322	108,764	138,179
Fund balances, beginning of year	122,902	288,887	450,605	862,394
Fund balances, end of year	\$ 140,995	\$ 300,209	\$ 559,369	\$ 1,000,573

The accompanying notes are an integral part of these financial statements.

CITY OF CARSON CITY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006

Net changes in fund balances - total governmental funds	138,179
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Amounts reported for *governmental activities* in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	70,420
Deduct - depreciation expense	(55,844)

Special assessments receivable are long-term in nature and are collectable over several years. However the current receipts are reflected as revenues on the fund statements.

Deduct - special assessment receipts	(556)
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Bond or note proceeds provide current financial resources to governmental funds in the period issued, but issuing notes increases long-term liabilities in the statement of net assets. Repayment of bond or note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on notes payable	19,039
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct - changes in compensated absences	(14,116)
Add - changes in accrued interest	150

An internal service fund is used by management to charge the costs of certain services to individual governmental funds. The net revenue (expense) of the fund is reported with governmental activities.

Deduct - income from governmental activities in the internal service fund	<u>(14,609)</u>
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Change in net assets of governmental activities	<u>\$ 142,663</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF CARSON CITY

GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Positive</u> <u>(Negative)</u>
Revenues				
Taxes and special assessments	\$ 336,000	\$ 325,558	\$ 325,557	\$ (1)
Intergovernmental	141,800	202,432	195,170	(7,262)
Fees and service charges	58,450	52,313	44,760	(7,553)
Interest	9,000	6,208	6,220	12
Miscellaneous	5,300	2,491	10,140	7,649
Total revenues	550,550	589,002	581,847	(7,155)
Expenditures				
Current				
Legislative	98,392	69,014	68,762	252
General government	150,711	151,197	150,897	300
Public safety	161,475	219,109	221,711	(2,602)
Public works	115,898	113,325	111,462	1,863
Recreation and culture	43,074	34,213	35,922	(1,709)
Total expenditures	569,550	586,858	588,754	(1,896)
Revenues over (under) expenditures	(19,000)	2,144	(6,907)	(9,051)
Other financing sources (uses)				
Transfers in	25,000	25,000	25,000	-
Transfers out	(12,000)	-	-	-
Total other financing sources (uses)	13,000	25,000	25,000	-
Net changes in fund balance	(6,000)	27,144	18,093	(9,051)
Fund balance, beginning of year	122,902	122,902	122,902	-
Fund balance, end of year	\$ 116,902	\$ 150,046	\$ 140,995	\$ (9,051)

The accompanying notes are an integral part of these financial statements.

CITY OF CARSON CITY

LIBRARY FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Positive</u> <u>(Negative)</u>
Revenues				
Taxes	\$ 78,500	\$ 94,303	\$ 94,304	\$ 1
Intergovernmental				
State shared	10,500	3,951	7,932	3,981
Penal fines	72,000	85,589	85,589	-
Fees, service charges	8,000	13,600	14,108	508
Contributions	-	3,188	3,329	141
Interest	5,000	8,192	7,883	(309)
Total Revenues	<u>174,000</u>	<u>208,823</u>	<u>213,145</u>	<u>4,322</u>
Expenditures				
Current				
Recreation and culture				
Library	174,000	166,670	169,444	(2,774)
Debt service				
Principal	26,000	18,962	19,039	(77)
Interest	6,000	13,417	13,340	77
Total expenditures	<u>206,000</u>	<u>199,049</u>	<u>201,823</u>	<u>(2,774)</u>
Net changes in fund balance	(32,000)	9,774	11,322	1,548
Fund balance, beginning of year	<u>288,887</u>	<u>288,887</u>	<u>288,887</u>	<u>-</u>
Fund balance, end of year	<u>\$ 256,887</u>	<u>\$ 298,661</u>	<u>\$ 300,209</u>	<u>\$ 1,548</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CARSON CITY

PROPRIETARY FUNDS STATEMENT OF NET ASSETS

JUNE 30, 2006

	Business-Type Activities		Enterprise Fund	Governmental Activities Internal Service Fund
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Fund</u>
Assets				
Current assets				
Cash and cash equivalents	\$ 308,586	\$ 261,325	\$ 569,911	\$ 101,489
Investments	737,794	251,520	989,314	184,736
Due from other governments	-	256,821	256,821	-
Accounts receivable	28,788	38,489	67,277	-
Total current assets	1,075,168	808,155	1,883,323	286,225
Capital assets				
Land	14,475	-	14,475	3,996
Buildings	-	80,576	80,576	58,875
Plant, mains and equipment	2,345,125	2,301,580	4,646,705	401,475
Construction in progress	-	1,555,524	1,555,524	-
Accumulated depreciation	(779,460)	(494,586)	(1,274,046)	(401,542)
Net capital assets	1,580,140	3,443,094	5,023,234	62,804
Total assets	2,655,308	4,251,249	6,906,557	349,029
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	2,924	266,185	269,109	274
Long-term liabilities				
Compensated absences	13,162	13,162	26,324	-
Loans payable	-	1,499,345	1,499,345	-
Customer deposits	601	502	1,103	-
Total long-term liabilities	13,763	1,513,009	1,526,772	-
Total liabilities	16,687	1,779,194	1,795,881	274
Net assets				
Investment in capital assets net of related debt	1,580,140	1,943,749	3,523,889	62,804
Unrestricted	1,058,481	528,306	1,586,787	285,951
Total net assets	\$ 2,638,621	\$ 2,472,055	\$ 5,110,676	\$ 348,755

The accompanying notes are an integral part of these financial statements.

CITY OF CARSON CITY

PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2006

	Business-Type Activities		Enterprise	Governmental
	<u>Sewer</u>	<u>Water</u>	<u>Fund</u>	<u>Activities</u>
			<u>Total</u>	<u>Internal</u>
				<u>Service</u>
				<u>Fund</u>
Operating revenue				
Charges for services	\$ 325,545	\$ 345,582	\$ 671,127	\$ 42,777
Other	-	5,991	5,991	-
Total operating revenue	325,545	351,573	677,118	42,777
Operating expense				
Salaries and wages	79,052	80,601	159,653	10,807
Supplies	16,818	13,598	30,416	11,992
Professional services	4,338	17,988	22,326	240
Insurance and bonds	14,233	14,233	28,466	-
Utilities	13,705	21,378	35,083	-
Equipment rentals	17,861	13,344	31,205	1,786
Repair and maintenance	4,878	10,051	14,929	17,669
Depreciation	42,449	42,784	85,233	21,784
Miscellaneous	1,525	3,080	4,605	-
Total operating expense	194,859	217,057	411,916	64,278
Operating income (loss)	130,686	134,516	265,202	(21,501)
Non-operating revenue (expense)				
Interest income	35,188	12,954	48,142	6,892
Interest expense	-	(17,918)	(17,918)	-
Total non-operating revenue (expense)	35,188	(4,964)	30,224	6,892
Income (loss) before transfers	165,874	129,552	295,426	(14,609)
Transfers				
Transfers out	(20,000)	(15,000)	(35,000)	-
Changes in net assets	145,874	114,552	260,426	(14,609)
Net assets, beginning of year	2,492,747	2,357,503	4,850,250	363,364
Net assets, end of year	\$ 2,638,621	\$ 2,472,055	\$ 5,110,676	\$ 348,755

The accompanying notes are an integral part of these financial statements.

CITY OF CARSON CITY

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2006

	Business-Type Activities		Enterprise Fund Total	Governmental Activities Internal Service Fund
	Sewer	Water		
Cash flows from operating activities				
Receipts from internal services provided	\$ -	\$ -	\$ -	\$ 42,777
Receipts from customers and users	324,076	344,625	668,701	-
Payments to employees	(80,559)	(79,094)	(159,653)	(10,807)
Payments to suppliers	(73,340)	(97,131)	(170,471)	(41,151)
Net cash provided by (used in) operating activities	170,177	168,400	338,577	(9,181)
Cash flows from non-capital financing activities				
Transfers out	(20,000)	(15,000)	(35,000)	-
Cash flows from capital and related financing activities				
Proceeds of loan issue	-	1,242,524	1,242,524	-
Interest expense	-	(17,918)	(17,918)	-
Acquisitions of capital assets	(8,435)	(1,298,508)	(1,306,943)	-
Net cash provided by (used in) capital and related financing activities	(8,435)	(73,902)	(82,337)	-
Cash flows from investing activities				
Purchases of investments	(169,335)	(145,494)	(314,829)	(112,194)
Interest income	35,188	12,954	48,142	6,892
Net cash provided by (used in) investing activities	(134,147)	(132,540)	(266,687)	(105,302)
Net increase (decrease) in cash and cash equivalents	7,595	(53,042)	(45,447)	(114,483)
Cash and cash equivalents, beginning of year	300,991	314,367	615,358	215,972
Cash and cash equivalents, end of year	\$ 308,586	\$ 261,325	\$ 569,911	\$ 101,489
Cash flows from operating activities				
Operating income (loss)	\$ 130,686	\$ 134,516	\$ 265,202	\$ (21,501)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities				
Depreciation	42,449	42,784	85,233	21,784
Change in operating assets and liabilities which provided (used) cash				
Accounts receivable	(1,036)	(6,948)	(7,984)	-
Accounts payable and accrued liabilities	18	-	18	(9,464)
Compensated absences	(1,507)	(1,507)	(3,014)	-
Customer deposits	(433)	(445)	(878)	-
Net cash provided by (used in) operating activities	\$ 170,177	\$ 168,400	\$ 338,577	\$ (9,181)

The accompanying notes are an integral part of these financial statements.

CITY OF CARSON CITY
FIDUCIARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2006

	Employees Retirement System	Agency Fund
Assets		
Cash and cash equivalents	\$ 37,627	\$ 6,773
Investments		
US government securities funds	74,217	-
Bond funds	127,988	-
Mutual funds	338,451	-
Other	40,042	-
Total assets	<u>618,325</u>	<u>\$ 6,773</u>
Liabilities		
Accounts payable	-	\$ 6,095
Due to other governments	-	677
Total liabilities	<u>-</u>	<u>\$ 6,772</u>
Net assets		
Held in trust for pension benefits	<u>618,325</u>	
Total net assets	<u>\$ 618,325</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF CARSON CITY
EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

	Employees Retirement System
Additions	
Contributions:	
Employer	\$ 38,806
Investment income	<u>28,431</u>
Total Additions	67,237
Deductions	
Distributions, expenses and benefit payments	<u>5,503</u>
Net increase (decrease)	61,734
Net assets, Beginning of year	<u>556,591</u>
Net assets, end of year	<u><u>\$ 618,325</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF CARSON CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Carson City, Michigan (the "City") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Carson City. There are no component units to be included. The criteria for including a component unit include significant operational or financial relationships with the City.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds

The *General Fund* is the general operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

The *Library Fund* accounts for the operations of the City library. This fund is primarily funded through a county-wide tax levy and penal fines.

The City reports the following major proprietary funds

The *Sewer Enterprise Fund* is used to account for the operations of the City's sewer department that provides sewer services to most residents of the City on a user charge basis.

The *Water Enterprise Fund* is used to account for the operations of the City's water department that provides water services to most residents of the City on a user charge basis.

Additionally, the City reports the following fund types

The *Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

The *Debt Service Fund* is used to account for the accumulation of resources for, and payment of, long-term debt principal, interest, and related costs. The City maintains one Debt Service Fund.

The *Internal Service Fund* is used to account for the financing of goods or services by the City which are provided to other departments and funds or to other governmental units on a cost reimbursement basis. The City maintains one Internal Service Fund for motor pool operations.

The *Trust and Agency Funds* are used to account for assets held in a trustee or agency capacity on behalf of outside parties, including other governments. These include a pension trust and an agency fund.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. Exceptions to this general rule include: (1) accumulated unpaid sick pay, and (2) principal and interest on long-term debt which is recognized when due.

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

All Governmental Funds are accounted for on a spending or "flow of financial resources" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance is considered a measure of "available, spendable resources".

Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available, spendable resources" during a period.

All Proprietary Funds and Trust and Agency Funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

All Proprietary Funds and the Pension Trust Fund are accounted for on a cost of services or "economic resources" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported fund equity (net assets) is segregated into restricted and unrestricted portions. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Budgets and Budgetary Accounting

Comparisons to budget are presented for General and Special Revenue Funds. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 1, the City Administrator submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget is adopted by activity.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all funds except Trust and Agency Funds.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).
6. Adoption and amendments of all budgets used by the City are governed by Public Act 621. The appropriations ordinances are based on the projected expenditures budget of the department heads of the City. Any amendment to the original budget must meet the requirements of Public Act 621. The City did amend its budget for the year ended June 30, 2006. Any revisions that alter the total expenditures of any fund must be approved by the City Council.

Budgets for expenditures are adopted on an activity basis. Budgeted amounts are as originally adopted, or as amended, by the City Council.

CITY OF CARSON CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. All investments are recorded at fair value.

Statutory Authority

State statutes authorize the City to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

Due to and Due from Other Funds

Interfund receivables and payables are short term borrowings that arise from interfund transactions which are recorded by all funds affected in the period in which transactions are executed.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities column in the government-wide financial statements.

Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The amount reported for infrastructure includes only assets added since 2004.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

CITY OF CARSON CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

No interest expense has been capitalized on capital assets reported in proprietary funds.

Depreciation on capital assets (including infrastructure), is computed using the straight-line method over the following estimated useful lives:

	Years
Buildings and Systems	5-65
Machinery and Equipment	3-15
Vehicles	5
Infrastructure	50

Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

Special assessment (Debt Service Fund)	\$ 1,197
Parks contribution (General Fund)	<u>171,682</u>
	<u>\$172,879</u>

Property Taxes

City property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before August 31. These summer tax bills include the City's own property taxes. Real property taxes not collected as of March 1 are turned over to Montcalm County for collection, which advances the City 100% for the delinquent taxes. Collection of delinquent personal property taxes remains the responsibility of the City Comptroller.

Property taxes levied in July of each year are recognized as revenue in that year.

Grants and Other Intergovernmental Revenues

Grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenue when entitlement occurs. Reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditure/expenses are incurred.

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

Compensated Absences

Under contracts negotiated with employee groups, individual employees have a vested right to receive payments for unused vacation benefits under formulas and conditions specified in the contracts. Accumulated vacation time of governmental funds is recorded on the statement of net assets and not on the governmental fund balance sheets because it is not expected to be liquidated with expendable available financial resources. Amounts accumulated for proprietary funds are reported on the statements of net assets of the individual enterprise funds.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Pension Trust

The Pension Trust Fund statement of net assets and statement of changes in net assets are presented as of and for the year ended April 30, 2006, the plan year.

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2006, the City carried commercial insurance to cover risks of losses. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

2. DEFICIT FUND EQUITY

At June 30, 2006 the City had a deficit fund balance in the Debt Service Fund of \$1,182. Management plans to eliminate the deficit through recognition of future revenues.

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

3. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

PA. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown at the functional level. The approved budgets of the City for these budgetary funds were adopted at the activity level. During the year ended June 30, 2006, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance (Unfavorable)</u>
General Fund			
General Government			
Election commission	\$ 1,545	\$ 1,580	\$ (35)
Assessor	14,873	15,146	(273)
Comptroller	95,220	95,250	(30)
Public Safety			
Fire Department	81,831	85,336	(3,505)
Recreation and Culture			
Parks	34,213	35,922	(1,709)
Special Revenue Funds			
Library Fund			
Library	166,670	169,444	(2,774)
Principal	18,902	19,039	(77)
Major Street Fund			
Routine maintenance	4,086	5,373	(1,287)
State trunkline	1,461	1,740	(279)
Local Street Fund			
Routine maintenance	3,727	4,084	(357)

4. DEPOSITS AND INVESTMENTS

The captions on the financial statements relating to cash and cash equivalents are as follows:

	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Fiduciary Activities</u>	<u>Total</u>
Cash and cash equivalents	\$ 869,005	\$ 569,911	\$ 44,400	\$1,483,316
Investments	531,996	989,314	580,698	2,102,008
	<u>\$1,401,001</u>	<u>\$1,559,225</u>	<u>\$625,098</u>	<u>\$3,585,324</u>

These deposits are in four financial institutions located in Michigan. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. They are recorded in City records at fair value. The City chooses to disclose its investments by specifically identifying each. As of year-end, the City had the following deposits and investments:

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

Investments

	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Washington Mutual Investors Fund	N/A	\$ 100,830	
Income Fund of America	N/A	237,621	
Bond Fund of America	N/A	127,988	
U.S. Government Securities Fund	N/A	71,217	
CSV Life Insurance	N/A	40,042	N/A

The above investments do not include certificates of deposit which are included in the investment caption on the financial statements as their original maturity date is greater than three months.

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 of the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity date for each investment is identified above for investments held at year-end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds qualified external investment pools as identified in Note 1 of the summary of significant accounting policies. The investment policy does not have specific limits in excess of state law on investment credit risk. The rating for each investment is identified above for investments held at year end.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. As of year-end, \$2,592,341 of the City's bank balance of \$3,007,626 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. Of the above \$577,698 of investments, \$40,042 represents the cash surrender value of life insurance and \$537,656 is invested in mutual funds. Of the above mutual fund investments the City's custodial credit risk exposure cannot be determined because the mutual funds do not consist of specifically identifiable securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1 of the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. More than 5 percent of the City's investments are in mutual funds which are exempt from concentration of credit risk disclosure. All investments held at year-end are reported above.

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

5. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>
Governmental Activities				
Capital assets, not being depreciated				
Land	\$158,996	\$ -	\$ -	\$158,996
Construction in Progress	-	-	-	-
Total capital assets, not being depreciated	<u>158,996</u>	<u>-</u>	<u>-</u>	<u>158,996</u>
Capital assets, being depreciated				
Building and improvements	1,262,967	-	-	1,262,967
Furniture and equipment	557,838	70,420	-	628,258
Motor pool equipment	429,657	-	(28,182)	401,475
Motor vehicles	565,796	-	-	565,796
Infrastructure	143,068	-	-	143,068
Total capital assets, being depreciated	<u>2,959,326</u>	<u>70,420</u>	<u>(28,182)</u>	<u>3,001,564</u>
Less accumulated depreciation for:				
Building and improvements	603,516	13,478	-	616,994
Furniture and equipment	371,038	15,565	-	386,603
Motor pool equipment	349,065	21,784	(28,182)	342,667
Motor vehicles	224,291	23,940	-	248,231
Infrastructure	4,293	2,861	-	7,154
Total accumulated depreciation	<u>1,552,203</u>	<u>77,628</u>	<u>(28,182)</u>	<u>1,601,649</u>
Net capital assets, being depreciated	<u>1,407,123</u>	<u>(7,208)</u>	<u>-</u>	<u>1,399,915</u>
Governmental Activities capital assets, net	<u>\$ 1,566,119</u>	<u>\$ (7,208)</u>	<u>\$ -</u>	<u>\$ 1,558,911</u>
Business-type Activities				
Capital assets, not being depreciated				
Land	\$ 14,475	\$ -	\$ -	\$ 14,475
Construction in Progress	167,375	1,388,149	-	1,555,524
Total capital assets, not being depreciated	<u>181,850</u>	<u>1,388,149</u>	<u>-</u>	<u>1,569,999</u>
Capital assets being depreciated				
Buildings and improvements	80,576	-	-	80,576
Mains and equipment	4,638,270	8,435	-	4,646,705
Total capital assets, being depreciated	<u>4,718,846</u>	<u>8,435</u>	<u>-</u>	<u>4,727,281</u>
Less accumulated depreciation for:				
Buildings and improvements	15,497	1,946	-	17,443
Mains and equipment	1,173,316	83,287	-	1,256,603
Total accumulated depreciation	<u>1,188,813</u>	<u>85,233</u>	<u>-</u>	<u>1,274,046</u>
Net capital assets, being depreciated	<u>3,530,033</u>	<u>(76,798)</u>	<u>-</u>	<u>3,453,235</u>
Business-type Activities capital assets, net	<u>\$3,711,883</u>	<u>\$1,311,351</u>	<u>\$ -</u>	<u>\$5,023,234</u>

CITY OF CARSON CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities	
General government	\$ 4,668
Public safety	23,017
Public works	16,412
Culture and recreation	11,747
Capital assets held by the governments internal service funds are charged to the various functions based on their usage of the assets	<u>21,784</u>
Total depreciation expense - governmental activities	<u>\$ 77,628</u>
Business-type Activities	
Sewer	\$ 42,449
Water	<u>42,784</u>
Total depreciation expense - business- type activities	<u>\$ 85,233</u>

6. INTERFUND TRANSACTIONS

Transfers in and out for the year ended June 30, 2006 are as follows:

	Transfers In by Fund		<u>Total</u>
	<u>General Fund</u>	<u>Non-Major Funds</u>	
Transfers out			
Non-major Funds	\$ -	\$ 7,130	\$ 7,130
Sewer	15,000	5,000	20,000
Water	10,000	5,000	15,000
	<u>\$25,000</u>	<u>\$17,130</u>	<u>\$42,130</u>

Transfers are used to move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them.

7. DEFINED BENEFIT PENSION PLAN

Plan Description

The City contributes to the City of Carson City Pension Plan, a single employer contributory defined benefit pension plan. All full-time employees over the age of 21 are eligible to participate in the Plan after one year of service.

Membership of the Plan consists of one terminated participant not yet receiving benefits and nine active plan members at the date of the latest actuarial valuation (May 1, 2002).

CITY OF CARSON CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Basis of Accounting

The financial statements of the Plan are prepared using the accrual basis of accounting. Plan member contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Method Used to Value Investments

Investments are reported at fair value.

Benefits Provided

Employees who retire at age 65 (normal retirement) with 3 or more years of service or at age 55 with 10 or more years of service are entitled to retirement benefits payable monthly. Normal retirement benefits are equal to 1% per year of service times the highest 5 year average salary over the 10 years prior to retirement. Benefits vest 20% per year after three years (100% after seven years). The accrued retirement benefit is actuarially reduced for each year by which early retirement precedes normal retirement. The Plan also provides for death benefits.

Contributions

The City has responsibility for making actuarially determined contributions to the Plan. Employees are not required to contribute to the Plan. The funding objective of the Plan is to establish and receive contributions, expressed as a percentage of active member payroll, which will remain approximately level from year to year and will not have to be increased for future generations of citizens. The contribution rate for normal cost is determined using an "individual spread gain" actuarial cost method and, further, follows the "level contribution method" as required by Michigan law. The actuarial assumptions are the same as used to compute the standardized measure of the Net Pension Obligation. The plan provisions and contribution requirements of plan members and the City are established and may be amended by City Council. The City is required to contribute at an actuarially determined rate; the current rate is 10.0% of annual covered payroll.

Annual Pension Cost and Net Pension Obligation

The City's annual pension cost and net pension obligation for the current year were as follows:

Annual required contribution (equal to annual pension cost)	\$ 28,431
Contributions made	<u>(28,431)</u>
Increase (decrease) in net pension obligation	-
Net pension obligation beginning of year	<u>-</u>
Net pension obligation end of year	<u>\$ -</u>

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

The annual required contribution for the current year was determined as part of the May 1, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7% pre-retirement and 5% post retirement investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4% per year. Both (a) and (b) included an inflation component of 0%.

Three-Year Trend Information			
<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
6/30/04	\$26,840	100%	\$ -
6/30/05	30,815	100%	-
6/30/06	28,431	100%	-

A separate financial report of the Plan has not been issued.

8. LONG-TERM DEBT

The following is a summary of the debt transactions of the City for the year ended June 30, 2006.

	<u>Balance</u> <u>July 1,</u> <u>2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30,</u> <u>2006</u>	<u>Due</u> <u>Within</u> <u>One</u> <u>Year</u>
Governmental Activities					
\$300,000, note to ACI Finance, Series 2000. Payments due in annual installments of \$17,000 to \$33,000 through May 1, 2016; interest at 4.68%	\$ 283,039	\$ -	\$(19,039)	\$ 264,000	\$ 21,000
Accrued employee benefits	46,416	14,116	-	60,532	-
Total Governmental Activities	329,455	14,116	(19,039)	324,532	21,000
Business-type Activities					
Drinking Water Revolving Fund Loan. Payments due in annual installments of \$65,000 to \$95,000 through 2026; interest at 2.125%	167,375	1,331,970	-	1,499,345	-
Accrued employee benefits	29,338	-	(3,014)	26,324	-
Total Business-type Activities	196,713	1,331,970	(3,014)	1,525,669	-
Total	\$526,168	\$1,346,086	\$(22,053)	\$1,850,201	\$21,000

CITY OF CARSON CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

The annual requirements to amortize all debt outstanding (excluding accrued employee benefits) as of June 30, 2006 are as follows:

Year Ended June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 21,000	\$12,355	\$ -	\$ 24,850
2008	22,000	11,372	65,000	24,159
2009	23,000	10,343	65,000	22,779
2010	24,000	9,266	70,000	21,344
2011	25,000	8,143	70,000	19,857
2012-2016	149,000	21,761	365,000	76,495
2017-2021	-	-	410,000	35,323
2022-2026	-	-	454,345	1,688
Total	\$264,000	\$73,240	\$1,499,345	\$226,495

9. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables of individual funds at June 30, 2006, were:

Fund	Receivables	Payables
General Fund	\$2,285	\$ -
Special Revenue Fund		
Local Street Fund	-	53
Debt Service Fund	-	2,232
Total	\$2,285	\$2,285

Interfund receivables and payables are related to short-term cash flow requirements.

CITY OF CARSON CITY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Percentage of Covered Payroll</u>
5/1/1994	\$ 280,896	\$ 284,896	\$ (4,000)	-1.42%	\$ 277,398	-1.44%
5/1/1995	296,274	215,347	80,927	27.31%	222,759	36.33%
5/1/1996	304,041	235,779	68,262	22.45%	214,870	31.77%
5/1/1997	358,147	262,754	95,393	26.64%	237,511	40.16%
5/1/1998	448,622	292,918	155,704	34.71%	240,222	64.82%
5/1/1999	561,309	440,021	121,288	21.61%	220,810	54.93%
5/1/2000	594,942	496,426	98,516	16.56%	256,773	38.37%
5/1/2002	492,776	415,483	77,293	15.69%	262,085	29.49%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended April 30</u>	<u>Annual required Contribution</u>	<u>Actual Contribution</u>	<u>Percent Contributed</u>
1997	\$ 24,106	\$ 24,106	100%
1998	23,753	23,753	100%
1999	23,270	23,270	100%
2000	28,330	28,330	100%
2001	25,279	25,279	100%
2002	27,416	27,416	100%
2003	23,704	23,704	100%
2004	26,840	26,840	100%
2005	30,815	30,815	100%
2006	28,431	28,431	100%

CITY OF CARSON CITY

GENERAL FUND SCHEDULE OF REVENUES BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes				
Property taxes	\$ 336,000	\$ 325,558	\$ 325,557	\$ (1)
Intergovernmental revenues				
Federal grants	-	52,683	45,295	(7,388)
State shared revenues	141,800	149,749	149,875	126
Total intergovernmental revenues	141,800	202,432	195,170	(7,262)
Fees and service charges				
Fire contracts	32,000	29,020	21,236	(7,784)
Rent	21,400	22,473	22,822	349
Licenses and permits	50	20	15	(5)
Court costs	5,000	800	687	(113)
Total fees and service charges	58,450	52,313	44,760	(7,553)
Interest	9,000	6,208	6,220	12
Miscellaneous	5,300	2,491	10,140	7,649
Total Revenues	\$ 550,550	\$ 589,002	\$ 581,847	\$ (7,155)

CITY OF CARSON CITY

GENERAL FUND SCHEDULE OF EXPENDITURES BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2006

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Expenditures				
Current				
Legislative				
City Council	\$ 98,392	\$ 69,014	\$ 68,762	\$ 252
General governmnet				
City Administrator	37,337	39,559	38,921	638
Election Commission	2,592	1,545	1,580	(35)
Assessor	16,200	14,873	15,146	(273)
Comptroller	87,532	95,220	95,250	(30)
Rental	1,050	-	-	-
Master Plan	6,000	-	-	-
Total general government	150,711	151,197	150,897	300
Public Safety				
Police Department	126,475	137,278	136,375	903
Fire Department	35,000	81,831	85,336	(3,505)
Total public safety	161,475	219,109	221,711	(2,602)
Public Works				
Department of Public Works	115,898	113,325	111,462	1,863
Recreation and culture				
Parks	43,074	34,213	35,922	(1,709)
Total expenditures	\$ 569,550	\$ 517,844	\$ 519,992	\$ (2,148)

CITY OF CARSON CITY
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2006

	Special Revenue		
	<u>Major Street</u>	<u>Local Street</u>	<u>Compensated Absences</u>
Assets			
Cash and cash equivalents	\$ 167,759	\$ 98,814	\$ 48,122
Investments	41,784	187,964	-
Assessment receivable	-	-	-
Due from other governments	11,705	4,559	-
Total Assets	<u>\$ 221,248</u>	<u>\$ 291,337</u>	<u>\$ 48,122</u>
Liabilities and fund balance			
Liabilities			
Accounts payable and accrued liabilities	\$ -	\$ 103	\$ -
Due to other funds	-	53	-
Deferred revenue	-	-	-
Total Liabilities	-	156	-
Fund balances			
Unreserved			
Undesignated (deficit)	221,248	291,181	48,122
Total fund balances (deficit)	<u>221,248</u>	<u>291,181</u>	<u>48,122</u>
Total liabilities and fund balances	<u>\$ 221,248</u>	<u>\$ 291,337</u>	<u>\$ 48,122</u>

	<u>Debt Service</u>		<u>Total</u>
\$	1,050	\$	315,745
	-		229,748
	1,197		1,197
	-		16,264
<hr/>			
\$	2,247	\$	562,954
<hr/>			

\$	-	\$	103
	2,232		2,285
	1,197		1,197
<hr/>			
	3,429		3,585

	(1,182)		559,369
<hr/>			
	(1,182)		559,369
<hr/>			
\$	2,247	\$	562,954
<hr/>			

CITY OF CARSON CITY

NONMAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue		
	Major Street	Local Street	Compensated Absences
Revenues			
Special assessments	\$ -	\$ -	\$ -
State revenues	72,069	27,794	-
Interest	3,422	7,756	94
Total Revenues	75,491	35,550	94
Expenditures			
Current			
General government	-	-	-
Public safety	-	-	-
Public works	9,307	6,466	-
Recreation and cultural	-	-	-
Capital Outlay	674	-	-
Total Expenditures	9,981	6,466	-
Revenues over (under) expenditures	65,510	29,084	94
Other financing sources (uses)			
Transfers in	-	7,130	10,000
Transfers out	(7,130)	-	-
Total other financing sources (uses)	(7,130)	7,130	10,000
Net changes in fund balances	58,380	36,214	10,094
Fund balances (deficit), beginning of year	162,868	254,967	38,028
Fund balances (deficit), end of year	\$ 221,248	\$ 291,181	\$ 48,122

<u>Debt</u>		<u>Total</u>	
<u>Service</u>			
\$	4,068	\$	4,068
	-		99,863
	8		11,280
<hr/>			
	4,076		115,211
<hr/>			
	-		-
	-		-
	-		15,773
	-		-
	-		674
<hr/>			
	-		16,447
<hr/>			
	4,076		98,764
<hr/>			
	-		17,130
	-		(7,130)
<hr/>			
	-		10,000
<hr/>			
	4,076		108,764
<hr/>			
	(5,258)		450,605
<hr/>			
\$	(1,182)	\$	559,369
<hr/>			

CITY OF CARSON CITY

MAJOR STREET FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Positive</u> <u>(Negative)</u>
Revenues				
State revenue	\$ 65,200	\$ 72,068	\$ 72,069	\$ 1
Interest	1,500	3,000	3,422	422
Total Revenues	66,700	75,068	75,491	423
Expenditures				
Current				
Public works				
Routine maintenance	6,827	4,086	5,373	(1,287)
Winter maintenance	4,367	2,194	2,194	-
State trunkline	13,594	1,461	1,740	(279)
Capital Outlay				
Construction	30,662	674	674	-
Total expenditures	55,450	8,415	9,981	(1,566)
Revenues over (under) expenditures	11,250	66,653	65,510	(1,143)
Other financing uses				
Transfers out	(11,250)	(7,167)	(7,130)	37
Net changes in fund balance	-	59,486	58,380	(1,106)
Fund balance, beginning of year	162,868	162,868	162,868	-
Fund balance, end of year	<u>\$ 162,868</u>	<u>\$ 222,354</u>	<u>\$ 221,248</u>	<u>\$ (1,106)</u>

CITY OF CARSON CITY
LOCAL STREET FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Positive</u> <u>(Negative)</u>
Revenues				
State revenue	\$ 26,000	\$ 27,795	\$ 27,794	\$ (1)
Interest	3,000	5,914	7,756	1,842
Total Revenues	29,000	33,709	35,550	1,841
Expenditures				
Current				
Public works				
Routine maintenance	6,828	3,727	4,084	(357)
Winter maintenance	3,048	2,382	2,382	-
Capital Outlay				
Construction	30,374	-	-	-
Total expenditures	40,250	6,109	6,466	(357)
Revenues over (under) expenditures	(11,250)	27,600	29,084	1,484
Other financing sources				
Transfers in	11,250	7,167	7,130	(37)
Net changes in fund balance	-	34,767	36,214	1,447
Fund balance, beginning of year	254,967	254,967	254,967	-
Fund balance, end of year	<u>\$ 254,967</u>	<u>\$ 289,734</u>	<u>\$ 291,181</u>	<u>\$ 1,447</u>

CITY OF CARSON CITY

COMPENSATED ABSENCES FUND

SCHEDULE OF REVENUES, EXPENDITURES

AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Positive</u> <u>(Negative)</u>
Revenues				
Interest	\$ -	\$ 89	\$ 94	\$ 5
Expenditures				
Current				
General Government	10,000	-	-	-
Revenues over (under) expenditures	(10,000)	89	94	5
Other financing sources				
Transfers in	10,000	10,000	10,000	-
Net changes in fund balance	-	10,089	10,094	5
Fund balance, beginning of year	38,028	38,028	38,028	-
Fund balance, end of year	\$ 38,028	\$ 48,117	\$ 48,122	\$ 5

CITY OF CARSON CITY
ALL AGENCY FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2006

	<u>Agency Funds</u>		
	<u>Imprest Payroll Fund</u>	<u>Tax Trust Fund</u>	<u>Total</u>
Assets			
Cash	\$ 6,675	\$ 98	\$ 6,773
Total assets	<u>\$ 6,675</u>	<u>\$ 98</u>	<u>\$ 6,773</u>
 Liabilities			
Accounts payable	\$ 6,095	\$ -	\$ 6,095
Due to other governments	580	97	677
Total Liabilities	<u>\$ 6,675</u>	<u>\$ 97</u>	<u>\$ 6,772</u>



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

July 21, 2006

To the City Council
City of Carson City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carson City, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the City of Carson City's basic financial statements and have issued our report thereon dated July 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Carson City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Carson City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vredeveld Haefner LLC



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

July 21, 2006

To the City Council
City of Carson City, Michigan

Compliance

We have audited the compliance of the City of Carson City, Michigan, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. The City of Carson City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Carson City's management. Our responsibility is to express an opinion on the City of Carson City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Carson City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Carson City's compliance with those requirements.

In our opinion, the City of Carson City, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City of Carson City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Carson City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Orlando Haefner LLC

CITY OF CARSON CITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

<u>Federal Grantor/Pass-through Grantor/ Program or Cluster Title</u>	<u>Grant Number</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Department of Homeland Security			
Operations and Friefighter Safety	EMW-2004-FG-20159	97.044	\$ 45,295
Environmental Protection Agency			
Passed through Michigan department of Environmental Quality			
Drinking Water Revolving Fund Loan	7156-01	66.468	<u>570,800</u>
Total Expenditures of Federal Awards			<u>\$ 616,095</u>

CITY OF CARSON CITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	Unqualified on basic financial statements		
Internal controls over financial reporting			
Material weaknesses identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no	
Reportable conditions identified not considered to be material weaknesses?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> none reported	
Noncompliance material to financial statements noted?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no	

Federal Awards

Internal control over major programs			
Material weaknesses identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no	
Reportable conditions identified not considered to be material weaknesses?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> none reported	

Type of auditors' report issued on compliance for major programs Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, section 510(a)?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
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Identification of Major Programs

CFDA Number(s)

66.468

Name of Federal Program or Cluster

Drinking Water Revolving Fund Loan

Dollar threshold used to distinguish between Type A and B programs	<u>\$300,000</u>
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Auditee qualified as low-risk auditee?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
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SECTION II - FINANCIAL STATEMENT FINDINGS

None noted

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted

SECTION IV - SUMMARY OF PRIOR AUDIT FINDINGS

None noted



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July 21, 2006

To the City Council and Management
City of Carson City

In planning and performing our audit of the financial statements of the City of Carson City, for the year ended June 30, 2006, we noted certain matters involving internal control and/or operations which we would like to bring to your attention. These matters were reviewed with management and we will review these matters during future audits.

FIRE AUXILLIARY

During our audit we noted that the Carson City Fire Department Auxiliary was not complying with the disbursement of funds requirements identified within their bylaws. We suggest that the City Comptroller maintain control over the Auxiliary's disbursement process as well as their depository account balance as specified in Auxiliary's bylaws.

INVESTMENTS

During our audit we noted that the investment account balance of the Library included an unallowable investment for local governmental units as identified by state law. We suggest that the unallowable investment be liquidated as soon as possible.

We would like to thank the City Staff for their assistance during the annual audit. Their advanced preparation and availability allowed for an efficient and effective audit process.

This report is intended solely for the information and use of the City Council and Management of the City of Carson City, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Vredeveld Haefner LLC



Vredeveld Haefner LLC

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July 21, 2006

To the City Council
City of Carson City

We have audited the financial statements of the City of Carson City, Michigan, for the year ended June 30, 2006, and have issued our report thereon dated July 21, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated July 14, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the City of Carson City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City of Carson City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City of Carson City's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the City of Carson City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City of Carson City's compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Carson City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during

the year. We noted no transactions entered into by the City of Carson City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the useful lives of capital assets and the valuation of the pension plan obligations.

Management's estimate of the useful lives is based on previous history and the estimate of pension information is based on an actuarial valuation of the Plan. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Carson City's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the City of Carson City, either individually or in the aggregate, indicate matters that could have a significant effect on the City of Carson City's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Carson City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the City Council and management of the City of Carson City and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Orlando Haeffner LLC